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### Highlights of Chapter:

- ◆ Accounting System
- ◆ Total Cost Budgeting and Accounting
- ◆ Commingling of Funds
- ◆ Recipient and Subrecipient Accounting Responsibilities
- ◆ Cash Depositories
- ◆ Supplanting

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All recipients are required to establish and maintain accounting systems and financial records to accurately account for funds awarded to them. These records shall include both Federal funds and all matching funds of State, local, and private organizations, when applicable.

State recipients shall expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Subrecipients of States shall follow the financial management requirements imposed on them by States. (State and local procedures must ensure subrecipients comply with the financial management standards found at 28 CFR Parts 66 and 70.)

**Accounting System.** The recipient is responsible for establishing and maintaining an adequate system of accounting and internal controls for itself and for ensuring that an adequate system exists for each of its subrecipients. An acceptable and adequate accounting system:

1. Presents and classifies projected historical cost of the grant as required for budgetary and evaluation purposes;
2. Provides cost and property control to ensure optimal use of funds;
3. Controls funds and other resources to assure that the expenditure of funds and use of property are in conformance with any general or special conditions that apply to the recipient;
4. Meets the prescribed requirements for periodic financial reporting of operations; and
5. Provides financial data for planning, control, measurement, and evaluation of direct and indirect costs.

Funds may be awarded as formula/block or discretionary awards. The various financial requirements and formulas of the awarding agency's programs, as well as the need for recipients to separately account for individual awards, require a special program account structure extending beyond normal classification by type of receipts, expenditures, assets, and liabilities.

1. **Block and Formula Awards.** To properly account for block and formula awards, the State should establish and maintain program accounts which will enable separate identification and accounting for:
  - a. Formula and block grant funds expended through programs of local government; and
  - b. Formula funds utilized to develop a State plan and to pay that portion of expenditures which are necessary for administration.
2. **Discretionary Awards.** To properly account for discretionary awards, all recipients should establish and maintain program accounts which will enable, on an individual basis, separate identification and accounting for:
  - a. Receipt and disposition of all funds (including project income);
  - b. Funds applied to each budget category included within the approved award;
  - c. Expenditures governed by any special and general provisions; and
  - d. Non-Federal matching contribution, if required.

**Total Cost Budgeting and Accounting.** Accounting for all funds awarded by the Federal agency shall be structured and executed on a "total program cost" basis. That is, total program costs, including Federal funds, State and local matching shares, and any other fund sources included in the approved project budget or received as program income shall be the foundation for fiscal administration and accounting. Unless otherwise prohibited by statute, applications for funding and financial reports require budget and cost estimates on the basis of total costs.

**Commingling of Funds.** Federal agencies shall not require physical segregation of cash deposits or the establishment of any eligibility requirements for funds which are provided to a recipient. However, the accounting systems of all recipients and subrecipients must ensure that agency funds are not commingled with funds from other Federal agencies. Each award must be accounted for separately. Recipients and subrecipients are prohibited from commingling funds on either a program-by-program basis or a project-by-project basis.

Funds specifically budgeted and/or received for one project may not be used to support another. Where a recipient's or subrecipient's accounting system cannot comply with this requirement, the recipient or subrecipient shall establish a system to provide adequate fund accountability for each project which it has awarded.

### **Recipient and Subrecipient Accounting Responsibilities**

1. **Reviewing Financial Operations.** Direct recipients should be familiar with, and periodically monitor, their subrecipient's financial operations, records, system, and procedures. Particular attention should be directed to the maintenance of current financial data.